

# Property Taxation Concepts

C. Kurt Barrow

Director of Assessment

IN Department of Local Government

Finance

---

# Concepts of the 2002 Reassessment

---

## **TRUE TAX VALUE**

The market value in use of a property for its current use, as reflected by the utility received by the owner or a similar user, from the property.



# Concepts of the 2002 Reassessment

---

## VALUE-IN-USE

The value of property for a specified use.

The concept holds value to be inherent in property itself; that is, the value is based on the ability of the asset to produce revenue or utility through ownership.

Synonymous with “*Use Value*” and “*Market Value-in-Use*”

# Concepts of the 2002 Reassessment

---

## VALUE-IN-EXCHANGE

A concept that rests on the subjective premise and holds that value is within the mind of a potential purchaser.

Value-in-exchange is only created when an object has utility, scarcity, and desirability.



# Concepts of the 2002 Reassessment

---

## **PROPERTY WEALTH**

The abundance of economic utility realized from property rights.

The utility can be in the form of money (income received) or amenities (shelter, # of bedrooms, # of bathrooms, garage)

# Concepts of the 2002 Reassessment

---

## **The 2002 Real Property Assessment Manual**

- Establishes a definition of True Tax Value—sets the standard for what the assessment system must accomplish.
- Allows for use of any approved methodology for purposes of assessment—so long as the results meet the definition of True Tax Value



# Concepts of the 2002 Reassessment

---

## **Methods of Estimating Value**

- Cost Approach
- Sales Comparison Approach
- Income Approach

# Concepts of the 2002 Reassessment

---

The *Guidelines* issued by the SBTC are a mass appraisal method based upon the cost approach.

However, the rule allows for use of any approved methodology for purposes of assessment—so long as the results meet the definition of True Tax Value



# Concepts of the 2002 Reassessment

---

## **The 2002 Real Property Assessment Manual:**

- Puts focus on OUTCOME rather than PROCESS
- The true test of a proper assessment will be determined in looking at the bottom line; does the final, total TTV equal the market value-in-use of the property.

# Concepts of the 2002 Reassessment

---

## Concepts of Cost

The Guidelines for 2002 require the use of **replacement cost**.

Therefore, most forms of functional obsolescence have been accounted for in the cost estimate and **do not** have to be considered in the depreciation estimate.



# Concepts of the 2002 Reassessment

---

## Depreciation Concepts

- # Depreciation – A loss in value from all causes.
- # Depreciation is the difference between the cost new of an improvement and its market value. It is the difference between the upper limit of value (cost new) and what potential buyers are willing to pay for the improvement.
- # Depreciation is determined by buyers in the marketplace. It is not a fixed \$ or % for every property of the same construction type and age.

# Concepts of the 2002 Reassessment

---

Three classifications (types) of depreciation:

- I. Physical deterioration – the loss in value caused by wear and tear and the forces of nature
- II. Functional obsolescence – the loss in value due to the inability of a structure to adequately perform the function for which it is used as of the appraisal date
- III. Economic (external) obsolescence – the loss in value as a result of impairment in utility and desirability caused by factors outside the property's boundaries.



# Concepts of the 2002 Reassessment

---

## Depreciation Tables in the 2002 Guidelines

- # Are developed based on “typical” or “average” rates of depreciation
- # Are not as accurate as other methods
- # Are used in mass appraisal
- # Require comparing the age of the improvement with its condition rating in the table to get the % of depreciation

# Concepts of the 2002 Reassessment

---

- # The tables are based on studies of the “typical” or “average” depreciation rates for improvements
- # The % depreciation found in the tables account for all 3 of the typical categories of depreciation (physical, functional, and economic)
- # This is referred to in the Guidelines as “normal” depreciation; it does not account for “abnormal” obsolescence.
- # “Abnormal” obsolescence is value loss from atypical forms of obsolescence and must be accounted for and calculated separately.



# Concepts of the 2002 Reassessment

---

- # Simply because a property has an item that appears to be an inutility, it does not mean that the structure suffers from obsolescence
- # It only suffers from obsolescence if the market (potential buyers) would pay less for the structure because of that item
- # Obsolescence does not exist because the owner, or his/her representative, says it does. It only exists when the market indicates that it does.

# Concepts of the 2002 Reassessment

---

## # *Clark v. SBTC*

Tax Court has stated a taxpayer must present evidence sufficient to establish that obsolescence actually exists. Statements or observations that are unsupported by actual market evidence are insufficient to establish the presence of obsolescence. A taxpayer must have probative evidence (proof) from the market.



# Concepts of the 2002 Reassessment

---

## Equalization

Process of conducting a statistical study whereby the assessor's estimates of TTV are compared to sales occurring in the market.

Measures assessment accuracy and uniformity

A separate study is completed on 7 classes of property in each township.

Must be completed and approved by DLGF in all counties prior to tax bills being mailed.

# Status of the 2002 Reassessment

---

- For 02 pay 03, 91 counties have completed everything; 1 outstanding
- For 03 pay 04, 82 counties have finished assessments, 74 counties have tax rates, but less than 20 have billed.
- [http://www.in.gov/dlgf/news/reassess\\_map.pdf](http://www.in.gov/dlgf/news/reassess_map.pdf)



# Assessment Appeals Process

---

- A taxpayer may file an appeal (Form 130) of an assessment with the county assessor's office within 45 days after the receipt of the Form 11 – Change of Assessment Notice
- If the taxpayer does not receive a Form 11, the tax bill serves as notice.
- Within 30 days of the filing, the township assessor is to hold an informal meeting with the taxpayer to resolve any issues presented in the appeal.

# Assessment Appeals Process (continued)

---

- If issues still remain after the informal meeting, the county Property Tax Assessment Board of Appeals (PTABOA) holds a hearing.
- PTABOA issues a decision (Form 115)
- Taxpayer may file an appeal (Form 131 w/county assessor) to the IN Board of Tax Review (IBTR) within 30 days of receiving the Form 115.



# Assessment Appeals Process (continued)

---

- IBTR holds a hearing and issues a final order.
- The IBTR order is subject to judicial review by the IN Tax Court. Taxpayer must file with the court within 45 days of receipt of the IBTR's final order.

# Assessment Relief for Multi-family Housing

---

## # Owner-occupied Deductions

Property is eligible for all deductions that single-family residential property may receive if it is owner-occupied.

i. e. Homestead credit, standard deduction, over 65, blind, disabled

- Amount of deduction would only apply to that portion of the property's value that is prorated to the owner-occupied unit.



# Assessment Relief for Multi-family Housing

---

## # Rehabilitation Deductions

- IC 6-1.1-12-18 Amount of increase in AV do to rehabilitation can be deducted up to \$9,000 per dwelling unit. AV prior to rehab cannot exceed \$9,000 per dwelling unit. Limited to 5 years.
- IC 6-1.1-12-22 50% of the amount of the increase in AV do to rehabilitation up to \$300,000. Rehab amount has to be \$10,000 or greater. Structure has to be at least 10 years old at the time of rehab. Limited to 5 years.

# Assessment Relief for Multi-family Housing

---

## # Mortgage Deduction (IC 6-1.1-12-1b)

\$3,000 deduction off the AV if the property is encumbered by a mortgage

## # Economic Revitalization Area (ERA) Abatement (IC 6-1.1-12.1)

Requires designation of the area as a “residentially distressed area”. Limited to multi-family units containing 4 units or less. Amount of abatement is limited to the lesser of the increased assessed value after the rehab or a fixed amount set by statute.

Example: 4 unit = \$96,000



# New Laws

---

## **IC 6-1.1-4-40**

### **Exclusion of federal income tax credits in the determination of the assessed value of low income housing tax credit property**

Sec. 40. The value of federal income tax credits awarded under Section 42 of the Internal Revenue Code may not be considered in determining the assessed value of low income housing tax credit property.